

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name MUSKEGON COUNTY ROAD COMMISSIO	County MUSKEGON
Fiscal Year End 09/30/07	Opinion Date 12/13/07	Date Audit Report Submitted to State 12/18/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

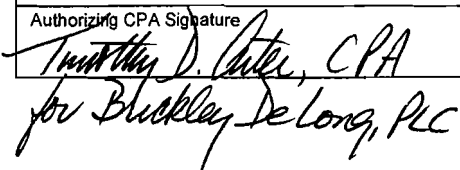
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	Not required		
Other (Describe)	<input type="checkbox"/>	Not required		
Certified Public Accountant (Firm Name) BRICKLEY DELONG		Telephone Number (231) 726-5800		
Street Address 316 MORRIS AVE., SUITE 500		City MUSKEGON	State MI	Zip 49443
Authorizing CPA Signature 		Printed Name TIMOTHY D ARTER		License Number 10253

Muskegon County Road Commission

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended September 30, 2007

Muskegon County Road Commission

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MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

Our discussion and analysis of the Muskegon County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the year ended September 30, 2007. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements, government-wide statements and fund statements.

REPORTING THE ROAD COMMISSION AS A WHOLE

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and how they changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the condition of the Road Commission's roads and changes in the law related to gas taxes and their distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The Road Commission's net assets increased approximately 3.9% from \$60,426,107 to \$62,759,957 for the year ended September 30, 2007. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

Capital assets increased by \$2,082,789 in 2007. Capital purchases for 2007 were greater than the annual depreciation expense generated on the assets. Cash and cash equivalents decreased by \$1,040,473 and other liabilities decreased by \$1,444,196 between 2006 and 2007. A decrease of \$1,446,508 in accounts payable between the two years accounts for the majority of the changes in other liabilities as well as the decrease in cash and cash equivalents.

Net assets are as follows:

	2007	2006
Assets		
Current and other assets	\$ 8,291,853	\$ 10,010,965
Capital assets	57,484,797	55,402,008
Total assets	65,776,650	65,412,973
Liabilities		
Noncurrent liabilities outstanding	1,858,116	2,384,093
Other liabilities	1,158,577	2,602,773
Total liabilities	3,016,693	4,986,866
Net assets		
Invested in capital assets, net of related debt	56,102,052	54,077,922
Restricted	6,657,905	6,348,185
Total net assets	\$ 62,759,957	\$ 60,426,107

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

Change in Net Assets

- **Federal Aid** – The Road Commission completed its most ambitious preservation and rehabilitation program in its history this fiscal year. This was possible due to a combination of funding sources. The Road Commission received a High Priority grant of \$1.4 million dollars with which we were able to apply a HMA overlay to 19.7 miles of roadway in the northern part of the county. Surface Transportation Program (STP) funds of \$1.18 million dollars allowed us to complete five more major projects. Two intersection projects were completed using Congestion Mitigation and High Priority Rural Roads funding. A traffic signal was installed at the Giles & Horton Roads intersection to alleviate congestion and improve safety. A retaining wall was constructed and land was cleared at the intersection of Buys and Giles Roads to improve sight distance at that location.
- **State Aid** – The main source of state aid that the Road Commission receives comes from the Michigan Transportation Fund (MTF). The Road Commission's allotment from MTF increased by a very modest .24% this year. Record high fuel prices continue to have a significant negative impact on our operation, both in the fuel for our vehicles and the products and services that we purchase. This category increased by \$722,420 over 2006 due to two special funding opportunities. We were able to procure funding of \$400,988 from the Local Jobs Today program to use in conjunction with federal funds on two of our projects. In addition another of our projects qualified for the use of Forest Road funds. The Road Commission receives an annual allotment of Forest Road funds that are maintained in a restricted fund and not recognized as revenue until we have a project that meets the criteria of the fund. This year we were able to transfer \$357,494 of Forest Road funds from its restricted fund to revenue for the Skeels Road project.
- **Charges for Services** – This funding source consists of two major activities. The Michigan Department of Transportation (MDOT) contracts with the Road Commission to perform year round maintenance on the state highways in Muskegon County. The amount of the contract is fairly stable from year to year and accounts for \$1,958,475 of the total in this category. The other significant item in this category is the charges for the services that other entities (besides MDOT) subcontract with the Road Commission to perform. The \$537,515 decrease in this category is attributable to a reduction in subcontracted services specifically the sewer project in Muskegon Township which concluded in the early part of the 2006/2007 fiscal year.
- **Investment Earnings** – While interest rates have remained fairly stable our investment balances declined during the current year as noted in the "Net Assets" section which accounts for the reduction in the investment earnings of \$31,011.
- **Primary Road Expenses** – There are a variety of activities that are charged to this classification. The two largest activities dollar wise are the chip seal and snow removal operations. In 2007 82.15 miles of roads were chip sealed as compared to 30.87 miles in 2006. The costs of chip sealing operations in 2007 were \$1,181,305 higher than in 2006. Snow removal costs were \$123,099 higher than the prior year. The increase in these two operations comprise the majority of the increase \$1,362,833 between 2006 and 2007.
- **Reimbursable Services** – This is the expense side of the charges for services revenue account. The decrease is attributable to the conclusion of the same township project mentioned above.

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

A summary of changes in net assets are as follows:

	2007	2006
Revenues		
Program revenues		
Licenses and permits	\$ 40,893	\$ 56,198
Federal aid	2,711,638	653,200
State aid	10,172,067	9,449,647
Contributions from local units	344,955	533,238
Charges for services	2,273,871	2,811,386
Investment earnings	298,022	329,033
General revenues		
Gain on disposal of capital assets	56,356	15,868
Other	78,729	38,236
Total revenues	15,976,531	13,886,806
Expenses		
Primary roads	7,245,211	5,882,378
Local roads	3,614,304	3,671,983
State trunkline	1,981,987	1,954,361
Net administrative	417,333	391,479
Reimbursable services	326,184	1,116,273
Interest on long term debt	57,662	59,968
Total expenses	13,642,681	13,076,442
Change in net assets	2,333,850	810,364
Net assets at beginning of year	60,426,107	59,615,743
Net assets at end of year	\$ 62,759,957	\$ 60,426,107

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes.

For the year ended September 30, 2007, the fund balance of the General Operations Fund increased by \$52,589, as compared to a decrease of \$723,489 in the prior year. The funding available each year for the mix of projects that the Road Commission plans to undertake has a profound effect on our resources and use of fund balance. When the 2006/2007 budget was prepared, the HMA overlay in the northern part of the county was budgeted to use \$1 million dollars of Road Commission funds. When the project was actually bid out the entire project cost was substantially lower than anticipated and we were able to complete the project using only High Priority Program (HPP) and Local Jobs Today (LJT) funds except for engineering costs.

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

Total operating revenues were \$15,976,531, an increase of \$2,089,725 as compared to last year. As previously noted the Road Commission had several windfall funding opportunities in 2007 in the form of High Priority Program (HPP) and Local Jobs Today (LJT) grants.

Total expenditures were \$15,923,942, an increase of \$1,313,647 compared to last year. The increased expenditures were due to the extra projects that were undertaken due to the availability of HPP and LJT funds.

A summary of changes in the General Operations Fund are as follows:

	<u>2007</u>	<u>2006</u>
Revenues		
Licenses and permits	\$ 40,893	\$ 56,198
Federal aid	2,711,638	653,200
State aid	10,172,067	9,449,647
Contributions from local units	344,955	533,238
Charges for services	2,273,871	2,811,386
Interest income	298,022	329,033
Other revenue	<u>135,085</u>	<u>54,104</u>
Total revenues	<u>15,976,531</u>	<u>13,886,806</u>
Expenses		
Public works	15,874,209	14,164,538
Capital outlay (net)	(211,179)	182,257
Debt service	<u>260,912</u>	<u>263,500</u>
Total expenses	<u>15,923,942</u>	<u>14,610,295</u>
Net change in fund balance	52,589	(723,489)
Fund balance at beginning of year	<u>6,930,438</u>	<u>7,653,927</u>
Fund balance at end of year	<u>\$ 6,983,027</u>	<u>\$ 6,930,438</u>

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

BUDGETARY HIGHLIGHTS

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditure requests throughout the year.

Amendments totaling \$134,027 were made to the original budgeted revenues during the 2006/2007 fiscal year increasing the final budgeted revenues to \$15,607,583. Revenues originally are conservatively forecasted as many factors effect the motoring public's consumption of fuel and vehicle purchases and thus impact the revenues generated by fuel and license sales. These budget changes were made to reflect the estimated impact of many situations that occurred during the year. The MTF revenues budget was increased because revenues did not drop as much as originally anticipated. The federal aid budget was decreased due to the HMA overlay project coming in under budget and did not require as high an amount of HPP funds as anticipated. The actual revenues recognized for the year were more than the final amended budget by \$368,948.

The final amended expenditures budget for the year ended September 30, 2007 was \$171,415 lower than the original budget. The actual expenditures for the year were less than the final amended budget by \$146,158. As depicted on the budget adjustment worksheet there were many changes both up and down that netted to the budget adjustment of \$171,415. Primary Routine Maintenance was increased from the original budget by \$640,400 due to the extra 7.15 miles (82.15 miles actual vs. 75 miles budgeted) of chip seal that was done. In addition to the extra miles of chip seal, scheduling and weather permitted the maintenance department to perform more crack pour operations to prepare the roads slated to be chip sealed next year. The increase in Primary Routine Maintenance was offset by a decrease in budgeted costs for Construction and Preservation projects by \$898,053. Again, the reduction in the cost of the HMA overlay project and the carryover of the Skeels Road West project to the next fiscal year contributed to this adjustment. When the budget adjustments are prepared, certain assumptions are made about the status of project costs and revenues through the end of the fiscal year. These projections are affected by factors such as weather conditions (favorable or adverse), material availability and various conditions beyond our control or planning.

Despite many adjustments throughout the fiscal year and particularly late in the year to the scope and number of projects that we were able to accomplish, we did manage to complete the year within the perimeters that we had budgeted. There were no negative budget variances in any of the expenditure categories that the Road Commission budgets.

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

	2007	2006
Capital assets, not being depreciated		
Land and improvements	\$ 20,828,632	\$ 20,167,237
Construction in progress	-	200,457
Total capital asset, not being depreciated	20,828,632	20,367,694
Capital assets being depreciated		
Buildings and improvements	3,913,690	3,896,421
Road equipment	9,009,208	8,969,708
Other equipment	2,945,827	2,959,727
Infrastructure and improvements	57,483,775	57,364,812
Total capital assets being depreciated	73,352,500	73,190,668
Less accumulated depreciation	(36,696,335)	(38,156,354)
Total capital assets, being depreciated, net	36,656,165	35,034,314
Total capital assets, net	\$ 57,484,797	\$ 55,402,008

Current year's major additions included the following:

Bridge replacements and repairs	\$ 277,537
Various reconstruction / resurfacing projects	4,512,100
Trucks and equipment	540,765

Additional information on capital assets can be found in note D of the notes to financial statements.

Debt

As of September 30, 2007, the Road Commission had \$1,723,999 in long-term debt outstanding. This is a decrease of \$201,063, which is due to normal debt repayments. The long-term debt outstanding is comprised of Michigan Transportation Fund bonds of \$1,407,877 and compensated absences of \$316,122.

Additional information on long-term debt can be found in note F of the notes to the financial statements.

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The 2007/2008 Fiscal year budget once again provides a facade to the actual circumstances facing the Muskegon County Road Commission. By this we mean that while the budget looks good on the surface, the very real and very serious funding issues, which will exist for the organization, are masked by one time State and Federal dollars. In addition this budget includes a lot of "Ifs". We have included several projects which are proposed in anticipation of receipt of funding and grant awards, but which may not materialize due to lack of state and federal appropriations. In particular, the Quarterline Project in Muskegon Township and a portion of the Dangl Road project in Fruitport Township appear to have the most vulnerability at this time.

A close examination of this budget and a comparison to recent previous budgets will reflect the twin devils of declining revenue and inflationary pressure far in excess of the published national rates on many of the products and materials which we utilize as an organization. Added to this we need to begin to recognize, and begin to make allowances for accounting changes coming for other post-employment benefits (OPEB) which are primarily composed of retiree healthcare. These changes will require the Road Commission to account for OPEB on an actuarial basis rather than on a pay-as-you-go basis as they are currently. Our expectation is that an actuarial study will be completed in the next few months and planning can begin for incorporating that information into the following budget.

In addition to the aforementioned funding impacts this budget also reflects increased pressure on our ability to perform basic maintenance and improvements due to a longstanding board policy involving culverts. This policy is rapidly becoming non-functional due to lack of township participation. Accepting the full burden for all culvert replacement on the local system places additional burden on an already challenging funding picture and will only allow for a continued and speedier decline in the overall transportation system.

As always however the Muskegon County Road Commission will strive to perform to the best of our ability given the existing circumstances and to do our best to keep the public highway system safe and convenient for travel.

CONTACTING THE ROAD COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department at the Muskegon County Road Commission administrative offices at 7700 East Apple Avenue, Muskegon, Michigan 49442.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

December 13, 2007

Board of County Road Commissioners
Muskegon County Road Commission
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Muskegon County Road Commission, a component unit of the County of Muskegon, as of and for the year ended September 30, 2007, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Muskegon County Road Commission, as of September 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - viii and 21 - 22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Muskegon County Road Commission's basic financial statements. The accompanying supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Muskegon County Road Commission
STATEMENT OF NET ASSETS
September 30, 2007

ASSETS	
CURRENT ASSETS	
Cash and investments	\$ 4,889,021
Accounts receivable	
State trunkline maintenance	141,077
State Department of Transportation	
Michigan Transportation Fund	1,612,497
Other	57,821
Due on county road agreements	231,219
Other	121,437
Inventories	
Road materials	512,385
Equipment materials and parts	514,296
Prepaid items	<u>186,968</u>
Total current assets	8,266,721
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	20,828,632
Depreciable	36,656,165
Bond issue costs, net	<u>25,132</u>
Total noncurrent assets	<u>57,509,929</u>
Total assets	65,776,650
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	669,815
Accrued liabilities	71,762
Bonds payable - due within one year	200,000
Compensated absences - due within one year	<u>217,000</u>
Total current liabilities	1,158,577
NONCURRENT LIABILITIES	
Advances	
State trunkline	
Equipment purchase	232,080
Maintenance	162,391
Deferred revenue - forest roads	156,646
Bonds payable - less amounts due within one year	1,207,877
Compensated absences - less amounts due within one year	<u>99,122</u>
Total noncurrent liabilities	<u>1,858,116</u>
Total liabilities	<u>3,016,693</u>
NET ASSETS	
Invested in capital assets, net of related debt	56,102,052
Restricted for county roads	<u>6,657,905</u>
Total net assets	<u>\$ 62,759,957</u>

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission
STATEMENT OF ACTIVITIES
For the year ended September 30, 2007

Program expenses	
Primary road routine and preventative maintenance	\$ 7,245,211
Local road routine and preventative maintenance	3,614,304
State trunkline	1,981,987
Net administrative	417,333
Reimbursable services	326,184
Interest on long-term debt	57,662
Total program expenses	<u>13,642,681</u>
Program revenues	
Charges for services	
Licenses and permits	40,893
Charges for services	2,273,871
Operating grants and contributions	
Michigan Transportation Funds	9,413,585
Investment earnings	298,022
Capital grants and contributions	
Federal grants	2,711,638
State grants	758,482
Contributions from local units	344,955
Total program revenues	<u>15,841,446</u>
Net program revenues	2,198,765
General revenues	
Gain on disposal of capital assets	56,356
Other	78,729
Total general revenues	<u>135,085</u>
Change in net assets	2,333,850
Net assets at October 1, 2006	<u>60,426,107</u>
Net assets at September 30, 2007	<u><u>\$ 62,759,957</u></u>

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission
BALANCE SHEET
September 30, 2007

	General Operations Fund
ASSETS	
Cash and cash equivalents	\$ 4,889,021
Receivables	
State trunkline maintenance	141,077
State Department of Transportation	
Michigan Transportation Fund	1,612,497
Other	57,821
Due on county road agreements	231,219
Other	121,437
Inventories	
Road materials	512,385
Equipment materials and parts	514,296
Prepaid items	186,968
Total assets	\$ 8,266,721
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 669,815
Accrued liabilities	62,762
Advances	
State trunkline	
Equipment purchase	232,080
Maintenance	162,391
Deferred revenue - forest roads	156,646
Total liabilities	1,283,694
Fund balance	
Reserved for:	
Inventories	1,026,681
Prepaid items	186,968
Unreserved	
Designated	418,936
Undesignated	5,350,442
Total fund balance	6,983,027
Total liabilities and fund balance	\$ 8,266,721

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**

September 30, 2007

Total fund balance—governmental funds	\$	6,983,027
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 94,181,132	
Accumulated depreciation	<u>(36,696,335)</u>	57,484,797

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	35,903	
Accumulated amortization	<u>(10,771)</u>	25,132

Long-term liabilities in governmental activities are not due and payable in the current
period and are not reported in the governmental funds.

Bonds payable	(1,400,000)	
Unamortized bond premium	(7,877)	
Compensated absences	<u>(316,122)</u>	(1,723,999)

Accrued interest in governmental activities is not reported in the governmental funds.		<u>(9,000)</u>
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Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>62,759,957</u></u>
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The accompanying notes are an integral part of this statement.

Muskegon County Road Commission
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the year ended September 30, 2007

	General Operations Fund
REVENUES	
Licenses and permits	\$ 40,893
Federal aid	2,711,638
State aid	10,172,067
Contributions from local units	344,955
Charges for services	2,273,871
Investment earnings	298,022
Other revenue	135,085
Total revenues	15,976,531
EXPENDITURES	
Public works	15,874,209
Capital outlay (net)	(211,179)
Debt service	260,912
Total expenditures	15,923,942
Net change in fund balance	52,589
Fund balance at October 1, 2006	6,930,438
Fund balance at September 30, 2007	\$ 6,983,027

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**
For the year ended September 30, 2007

Net change in fund balance—total governmental funds	\$	52,589
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful live, respectively.

Depreciation and amortization expense	\$ (3,446,727)	
Capital outlay	<u>5,528,311</u>	2,081,584

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

Gain on sale of capital assets	56,356	
Net proceeds from sale of capital assets	<u>(58,742)</u>	(2,386)

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Repayment of principal on long-term debt	200,000	
Amortization of bond premium	<u>2,250</u>	202,250

Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.

1,000

Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.

(1,187)

Change in net assets of governmental activities	\$	<u><u>2,333,850</u></u>
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The accompanying notes are an integral part of this statement.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Muskegon County Road Commission (Road Commission) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Road Commission's accounting policies are described below.

Reporting Entity

The Muskegon County Road Commission (Road Commission), which is established pursuant to the County Road Law (MCL 224.1), is governed by a three-member Board of County Commissioners appointed by the Muskegon County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to the Muskegon County Board of Commissioners' approval.

The criteria established by the GASB Statement No. 14, *The Financial Reporting Entity*, for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Muskegon County Road Commission, a discretely presented component unit of the County of Muskegon. No organizations meet this criteria for the Road Commission and therefore none are included in the financial statements.

The Road Commission General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission's General Operations Fund.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Road Commission. There are only governmental activities reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the General Operations Fund (governmental fund). The General Operations Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Amounts reported as programs revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available, it is the Road Commission's policy to use restricted resources first.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Road Commission reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Road Commission intends to hold the investment until maturity.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Deposits and Investments—Continued

The Road Commission has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Road Commission to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

Inventories and Prepaid Items

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Schedule C equipment has no minimum cost. However, such assets are recorded at historical cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

In the case of the initial capitalization of general infrastructure assets, the Road Commission chose to include all such items regardless of their acquisition date or amount. The Road Commission was able to obtain the historical cost of the initial reporting of these assets by recording the actual costs incurred by the Road Commission.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

<u>Assets</u>	<u>Years</u>
Building	25 - 50 years
Road equipment	5 - 8 years
Other equipment	4 - 20 years
Infrastructure - roads	8 - 30 years
Infrastructure - bridges	25 - 50 years

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Compensated Absences

Road Commission employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The liability for these compensated absences is accrued when incurred in the government-wide financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, the governmental fund type recognizes bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, the governmental fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgetary procedures are established pursuant to Act 621 PA 1978, as amended, (MCL 141.421) which requires the commissioners to approve a budget for the General Operations Fund. Pursuant to the Act, the Road Commission follows these procedures in establishing the budgetary information provided in the financial statements:

- a. The director of financial services submits to the Board of Commissioners, a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2007

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued

- b. A public hearing is conducted at the Road Commission to obtain public comments.
- c. Prior to September 30, the budget and annual appropriations are legally adopted by the Board of Commissioners.
- d. Formal budget integration is employed as a management control device during the year for the General Operations Fund.
- e. Budgets as presented are prepared on the modified accrual basis of accounting.
- f. Budgetary control is exercised at the category level.
- g. The budgetary information presented has been amended during the year by an official action of the Board of Commissioners.
- h. All budget appropriations lapse at year end.

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Road Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Road Commission does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Road Commission investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. As of September 30, 2007, \$4,952,643 of the Road Commission's bank balance of \$5,052,643 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Road Commission does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Road Commission is not authorized to invest in investments which have this type of risk.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2007

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007 was as follows:

	Balance October 1, 2006	Additions	Deductions	Balance September 30, 2007
Capital assets, not being depreciated:				
Land and improvements	\$ 20,167,237	\$ 661,395	\$ -	\$ 20,828,632
Construction in progress	<u>200,457</u>	<u>-</u>	<u>200,457</u>	<u>-</u>
Total capital assets, not being depreciated	20,367,694	661,395	200,457	20,828,632
Capital assets, being depreciated:				
Buildings and improvements	3,896,421	17,269	-	3,913,690
Road equipment	8,969,708	540,765	501,265	9,009,208
Other equipment	2,959,727	180,640	194,540	2,945,827
Infrastructure and improvements	<u>57,364,812</u>	<u>4,328,699</u>	<u>4,209,736</u>	<u>57,483,775</u>
Total capital assets, being depreciated	73,190,668	5,067,373	4,905,541	73,352,500
Less accumulated depreciation:				
Buildings and improvements	2,176,721	134,436	-	2,311,157
Road equipment	7,409,084	696,705	500,287	7,605,502
Other equipment	1,627,008	116,326	193,132	1,550,202
Infrastructure and improvements	<u>26,943,541</u>	<u>2,495,669</u>	<u>4,209,736</u>	<u>25,229,474</u>
Total accumulated depreciation	<u>38,156,354</u>	<u>3,443,136</u>	<u>4,903,155</u>	<u>36,696,335</u>
Total capital assets, being depreciated, net	<u>35,034,314</u>	<u>1,624,237</u>	<u>2,386</u>	<u>36,656,165</u>
Capital assets, net	<u><u>\$ 55,402,008</u></u>	<u><u>\$ 2,285,632</u></u>	<u><u>\$ 202,843</u></u>	<u><u>\$ 57,484,797</u></u>

Depreciation

Depreciation expense has been charged to programs of the Road Commission as follows:

Primary road	\$ 2,487,381
Local road	812,885
State trunkline	110,482
Administrative	<u>32,388</u>
	<u><u>\$ 3,443,136</u></u>

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2007

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended September 30, 2007 was as follows:

	Balance October 1, 2006	Additions	Deductions	Balance September 30, 2007
Issuance costs (10 years)	\$ 35,903	\$ -	\$ -	\$ 35,903
Less accumulated amortization	<u>(7,180)</u>	<u>(3,591)</u>	<u>-</u>	<u>(10,771)</u>
Bond issuance costs, net	<u>\$ 28,723</u>	<u>\$ (3,591)</u>	<u>\$ -</u>	<u>\$ 25,132</u>

Amortization

Amortization expense has been charged to interest.

NOTE F—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Road Commission for the year ended September 30, 2007:

	Balance October 1, 2006	Additions	Reductions	Balance September 30, 2007	Due within one year
Michigan Transportation Fund					
Notes	\$ 1,610,127	\$ -	\$ 202,250	\$ 1,407,877	\$ 200,000
Compensated absences	<u>314,935</u>	<u>423,479</u>	<u>422,292</u>	<u>316,122</u>	<u>217,000</u>
Governmental activities					
long-term liabilities	<u>\$ 1,925,062</u>	<u>\$ 423,479</u>	<u>\$ 624,542</u>	<u>\$ 1,723,999</u>	<u>\$ 417,000</u>

Michigan Transportation Fund Notes:

\$2,000,000 Michigan Transportation Fund Notes,
Series 2004; due in annual installments of
\$200,000 through 2014; interest at 3% to 4%

\$ 1,400,000

Plus issuance premium

7,877

1,407,877

Compensated absences

316,122

\$ 1,723,999

The Michigan Transportation Fund bonds are backed by the full faith and credit of the Road Commission.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2007

NOTE F—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Annual debt service requirements to maturity for the Michigan Transportation Fund bonds outstanding as of September 30, 2007 follows:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 200,000	\$ 51,500
2009	200,000	45,000
2010	200,000	38,000
2011	200,000	31,000
2012	200,000	23,500
2013-2014	400,000	24,000
	<u>\$ 1,400,000</u>	<u>\$ 213,000</u>

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Road Commission. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Muskegon County Road Commission
7700 East Apple Avenue
Muskegon, MI 49442

Funding Policy. Plan members are not required to contribute to the plan. The Road Commission is required to contribute at an actuarially-determined rate; the current rate is 8.86 to 86.06 percent of annual covered payroll depending on the Plan.

Annual Pension Cost. For the year ended September 30, 2007, the Road Commission's annual pension cost was approximately \$448,000 which was made in accordance with contribution requirements determined by an actuarial valuation of the Plan as of December 31, 2005. The employer contribution rate has been determined using the entry age normal cost funding method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 4.5 percent to 12.9 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2007

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Pension Plan—Continued

Three-Year Trend Information

Year ended	Approximate Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09/30/05	\$ 372,000	100 %	\$ -
09/30/06	402,000	100	-
09/30/07	448,000	100	-

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

(Dollars amounts in thousands)

Actuarial valuation date	Actuarial value of assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/04	\$ 16,576	\$ 19,176	\$ (2,600)	86 %	\$ 3,583	73 %
12/31/05	16,629	19,817	(3,188)	84	3,632	88
12/31/06	16,888	20,193	(3,306)	84	3,372	98

Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time Road Commission employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

NOTE H—OTHER POST-EMPLOYMENT BENEFITS

In addition to pension benefits, the Road Commission extends medical insurance coverage to retirees. This employer-paid benefit is provided upon the employee retiring at age 55 or older completing at least twenty-five years of service and meeting other eligibility requirements. Upon that attainment, the employee is provided with medical insurance substantially equivalent to that provided to existing employees in their classification until they are eligible for federal Medicare coverage. After becoming eligible for Medicare coverage, the Road Commission provides a Medicare supplemental policy with prescription coverage to retirees. The Road Commission has sixty-two subscribers receiving benefits. The benefits are financed by the Road Commission on a pay-as-you-go basis out the General Operations Fund. Current year claims for covered individuals under the self-insurance program were \$245,368.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2007

NOTE I—OTHER INFORMATION

Risk Management

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission manages its liability and property risk by participating in Michigan County Road Commission Self-Insurance Pool (MCRCSIP), a trust fund established by the road commissions in the State of Michigan. The MCRCSIP is a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to MCRCSIP for its general liability coverage. The MCRCSIP is self-sustaining through member premiums and provides reinsurance through commercial companies for claims in excess of certain limits. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Road Commission manages its workers' compensation risk by participating in the County Road Association Self-Insurance Fund (CRASIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Road Commission pays an annual premium to CRASIF for its workers' compensation coverage. The CRASIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and carrying reinsurance through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Road Commission carries commercial insurance for underground storage tank systems.

The Road Commission self-insures for employees' health benefits and accounts for and finances its uninsured risk of loss in the General Operations Fund. Under this program, the Road Commission provides specific coverage for up to a maximum of \$75,000 per covered individual and certain aggregate coverage for the plan year. The Road Commission purchases commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

The Road Commission operates the self-insurance program on a pay-as-you-go basis. The claims liability of \$50,047 reported in the General Operations Fund at September 30, 2007, is based on the requirements of GASB 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

Changes in the funds claims liability amount in fiscal year 2007 and 2006 were as follows.

<u>Fiscal year ended September 30,</u>	<u>Balance at beginning of year</u>	<u>Current year claims and changes in estimates</u>	<u>Claims payments</u>	<u>Balance at end of year</u>
2007	\$ 31,457	\$ 633,387	\$ 614,797	\$ 50,047
2006	33,387	588,657	590,587	31,457

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2007

NOTE I—OTHER INFORMATION—Continued

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

The Road Commission is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Road Commission's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Road Commission.

NOTE J—LEASE COMMITMENTS

The Road Commission leases certain road equipment under operating leases. Lease expense for the year ended September 30, 2007 was \$124,487.

Minimum future lease commitments are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Amount</u>
2008	\$ 67,665
2009	52,612
2010	32,722
2011	9,963
	<u>\$ 162,962</u>

NOTE K—DESIGNATED FUND BALANCE

The Road Commission designates a portion of its Act 51 revenues realized from a 1996 gasoline tax increase for the purpose of local road improvement programs in the townships. The allocation of funds is based upon road mileage and population within each township.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2007

NOTE L—FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2007, the federal aid received and expended by the Road Commission was \$2,711,638 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the Road Commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects.

NOTE M—ECONOMIC DEPENDENCY

State of Michigan revenues represent 64 percent of General Operations Fund revenues.

REQUIRED SUPPLEMENTARY INFORMATION

Muskegon County Road Commission
Required Supplementary Information
SCHEDULE OF REVENUES
BUDGETARY COMPARISON SCHEDULE
General Operations Fund
For the year ended September 30, 2007

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
Licenses and permits				
Permits	\$ 30,000	\$ 45,000	\$ 40,893	\$ (4,107)
Federal aid				
Surface Transportation Program	1,537,456	1,150,000	1,180,368	30,368
High Priority	1,350,000	1,350,000	1,434,053	84,053
Other	65,100	65,100	97,217	32,117
State aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Urban road	1,300,000	1,300,000	1,313,197	13,197
Allocation	7,585,000	7,921,200	8,003,905	82,705
Snow removal	91,000	86,483	86,483	-
Economic development				
Forest road	360,000	360,000	357,494	(2,506)
Other - Local Jobs Today	405,000	405,000	400,988	(4,012)
Contributions from local units				
Cities and villages	-	-	3,331	3,331
Townships	250,000	187,250	270,692	83,442
Other private sources	-	-	70,932	70,932
Charges for services				
State trunkline				
Maintenance	1,870,000	1,950,000	1,928,282	(21,718)
Nonmaintenance	30,000	33,100	30,194	(2,906)
Salvage sales	5,000	9,700	9,510	(190)
Other	250,000	373,050	305,885	(67,165)
Investment earnings	280,000	296,700	298,022	1,322
Other revenue				
Gain on disposal of capital assets	25,000	25,000	56,356	31,356
Other	30,000	40,000	78,729	38,729
Total revenues	15,473,556	15,607,583	\$ 15,976,531	\$ 368,948
Fund balance at October 1, 2006	6,930,438	6,930,438		
Total budget	\$ 22,403,994	\$ 22,538,021		

Muskegon County Road Commission
Required Supplementary Information
SCHEDULE OF EXPENDITURES—CONTINUED
BUDGETARY COMPARISON SCHEDULE
General Operations Fund
For the year ended September 30, 2007

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
Primary road				
Construction	\$ 280,000	\$ -	\$ -	\$ -
Preservation/Structural Improvements	5,259,353	4,641,300	4,608,824	32,476
Routine and Preventive Maintenance	4,624,900	5,265,300	5,244,975	20,325
Local road				
Preservation/Structural Improvements	250,000	182,100	180,813	1,287
Routine and Preventive Maintenance	2,974,000	3,300,300	3,262,649	37,651
State trunkline				
Maintenance	1,869,800	1,952,900	1,951,793	1,107
Nonmaintenance	30,200	30,200	30,194	6
Equipment expenditures (net)				
Direct	1,510,000	1,595,700	1,588,147	7,553
Indirect	1,100,000	1,180,500	1,178,822	1,678
Operating	425,000	534,900	532,014	2,886
Less: Equipment rentals	<u>(2,700,000)</u>	<u>(3,092,500)</u>	<u>(3,121,355)</u>	<u>28,855</u>
Total equipment expenditures (net)	335,000	218,600	177,628	40,972
Administrative expenditures (net)				
Administrative expenditures	613,000	586,000	581,027	4,973
Less: Handling charges	(6,000)	(6,000)	(5,979)	(21)
Overhead - state	(148,800)	(157,300)	(156,267)	(1,033)
Other	<u>(2,000)</u>	<u>(2,000)</u>	<u>(1,448)</u>	<u>(552)</u>
Total administrative expenditures (net)	456,200	420,700	417,333	3,367
Capital outlay (net)				
Capital outlay	717,062	748,200	738,675	9,525
Less: Depreciation	(812,000)	(949,000)	(947,468)	(1,532)
Equipment retirements	<u>(3,000)</u>	<u>(3,000)</u>	<u>(2,386)</u>	<u>(614)</u>
Total capital outlay (net)	(97,938)	(203,800)	(211,179)	7,379
Debt service				
Principal	200,000	200,000	200,000	-
Interest and fees	<u>60,000</u>	<u>62,500</u>	<u>60,912</u>	<u>1,588</u>
Total expenditures	16,241,515	16,070,100	\$ <u>15,923,942</u>	\$ <u>146,158</u>
Fund balance at September 30, 2007	<u>6,983,027</u>	<u>6,983,027</u>		
Total budget	\$ <u>23,224,542</u>	\$ <u>23,053,127</u>		

OTHER SUPPLEMENTAL INFORMATION

Muskegon County Road Commission
ANALYSIS OF CHANGES IN FUND BALANCE
 General Operations Fund
 For the year ended September 30, 2007

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Total operating revenues	\$ 15,976,531	\$ 10,703,060	\$ 2,854,514	\$ 2,418,957
Total expenditures	<u>15,923,942</u>	<u>10,357,787</u>	<u>3,290,762</u>	<u>2,275,393</u>
Excess of revenues over (under) expenditures	52,589	345,273	(436,248)	143,564
OTHER FINANCING SOURCES (USES)				
Optional transfers in (out)	<u>-</u>	<u>(550,756)</u>	<u>550,756</u>	<u>-</u>
Net change in fund balance	52,589	(205,483)	114,508	143,564
Fund balance at October 1, 2006	<u>6,930,438</u>	<u>4,453,372</u>	<u>545,180</u>	<u>1,931,886</u>
Fund balance at September 30, 2007	<u><u>\$ 6,983,027</u></u>	<u><u>\$ 4,247,889</u></u>	<u><u>\$ 659,688</u></u>	<u><u>\$ 2,075,450</u></u>

Muskegon County Road Commission
ANALYSIS OF REVENUES
General Operations Fund
For the year ended September 30, 2007

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Licenses and permits				
Permits	\$ 40,893	\$ -	\$ -	\$ 40,893
Federal aid				
Surface Transportation Program	1,180,368	1,180,368	-	-
High Priority	1,434,053	1,434,053	-	-
Other	97,217	97,217	-	-
State aid				
Michigan Transportation Fund				
Engineering	10,000	7,314	2,686	-
Urban road	1,313,197	965,129	348,068	-
Allocation	8,003,905	5,848,749	2,155,156	-
Snow removal	86,483	63,254	23,229	-
Economic development				
Forest road	357,494	357,494	-	-
Other - Local Jobs Today	400,988	400,988	-	-
Contributions from local units				
Cities and villages	3,331	3,331		
Townships	270,692	-	270,692	-
Other private sources	70,932	70,932	-	-
Charges for services				
State trunkline				
Maintenance	1,928,282	-	-	1,928,282
Nonmaintenance	30,194	-	-	30,194
Salvage sales	9,510	9,510	-	-
Other	305,885	1,897	1,550	302,438
Investment earnings	298,022	191,509	23,454	83,059
Other revenue				
Gain on disposal of capital assets	56,356	37,065	4,013	15,278
Other	78,729	34,250	25,666	18,813
Total revenues	<u>\$ 15,976,531</u>	<u>\$ 10,703,060</u>	<u>\$ 2,854,514</u>	<u>\$ 2,418,957</u>

Muskegon County Road Commission
ANALYSIS OF EXPENDITURES
 General Operations Fund
 For the year ended September 30, 2007

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Primary road				
Preservation/Structural Improvements	\$ 4,608,824	\$ 4,608,824	\$ -	\$ -
Routine and Preventive Maintenance	5,244,975	5,244,975	-	-
Local road				
Preservation/Structural Improvements	180,813	-	180,813	-
Routine and Preventive Maintenance	3,262,649	-	2,954,979	307,670
State trunkline				
Maintenance	1,951,793	-	-	1,951,793
Nonmaintenance	30,194	-	-	30,194
Equipment expenditures (net)	177,628	76,487	63,768	37,373
Administrative expenditures (net)	417,333	316,635	100,698	-
Capital outlay (net)	(211,179)	(150,046)	(9,496)	(51,637)
Debt service				
Principal	200,000	200,000	-	-
Interest and fees	60,912	60,912	-	-
Total expenditures	<u>\$ 15,923,942</u>	<u>\$ 10,357,787</u>	<u>\$ 3,290,762</u>	<u>\$ 2,275,393</u>